

# Member Update

April 18, 2008

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## Congress Continues to Work on Housing Foreclosure Bills

In the past two weeks, Congress has focused much attention on the housing foreclosure crisis. State and local governments continue to suffer due to rising home foreclosures, increased vacant properties, and lower property tax revenues to pay for basic services. During the recent Congressional spring recess, lawmakers repeatedly heard from their constituents about the hardships that the foreclosure situation brings to their communities, and how constituents feel that Congress is not taking quick action to assist the crisis. As a result, both the House and Senate are taking steps to assist homeowners in danger of foreclosure and to help at-risk communities.

### ***Senate Passes Foreclosure Bill with \$4 Billion in CDBG Funds***

The Senate passed its housing foreclosure package (HR 3221) on April 10 (84-12), which includes \$3.92 billion in emergency CDBG funds to be used for the redevelopment of abandoned and foreclosed homes. Other sections of the bill would provide:

- modernization of the Federal Housing Administration, to include an increase in FHA home mortgage limits
- tax breaks to homebuilders and other businesses suffering losses
- \$10 billion in tax-exempt bond authority, to refinance certain subprime mortgages or develop multifamily rental housing
- \$7,000 individual tax credit as an incentive for the purchase of foreclosed homes

- \$180 million in housing counseling funds for borrowers threatened with foreclosure
- an extension of tax breaks for renewable energy

An amendment to the bill by Sen. John Ensign (R-NV) added that any profits generated from the use of the CDBG funds for the redevelopment of foreclosed homes that are not reinvested must be returned to the Treasury after 5 years. COSCDA supports this Emergency CDBG funding, which would be distributed through a formula to be developed by HUD based on foreclosure data. States and local governments would have up to 18 months to spend the funding. Eligible activities for the emergency funding would focus solely on the purchase, rehabilitation and redevelopment of abandoned and foreclosed properties. While COSCDA supports funding to assist state and local communities facing foreclosure crises, we note and object to the fact that the funding level for the "regular" CDBG formula program is lower (\$3.5 billion) than for the proposed emergency program (\$3.9 billion). We call on Congress to recognize that funding for more community development and affordable housing programs is desperately needed across the country, as such, COSCDA is calling for increased funding in FY09 for the CDBG program.

The Senate bill has been criticized by some as not adequately assisting those homeowners who are currently in danger of foreclosure. A provision in the bill would have allowed bankruptcy judges to adjust the terms of home mortgages during bankruptcy, including reducing the outstanding principal on a loan, which would help struggling homeowners facing bankruptcy avoid foreclosure. The White House and some Republicans stated that changes to bankruptcy law could raise overall borrowing costs, since lenders might price in the risk that a loan could be changed in the future by bankruptcy judges. This controversial provision was removed in order to obtain the votes for passage of the package.

The Senate bill is attached to a House-passed energy tax measure (HR 3221) that will be the vehicle for its passage. The bill now heads to a Conference Committee, where conferees will eventually compare it to the House version, which is currently being developed in the House Financial Services Committee.

### ***House Financial Services Committee Formally Introduces Foreclosure Bill***

On Thursday, House Financial Services Chairman Barney Frank (D-MA) introduced a bill (HR 5830) to assist homeowners about to foreclose and to reduce the number of foreclosures. The bill would allow the FHA to insure up to \$300 billion in certain subprime mortgages of homeowners after they have been re-financed at a lower market value.

The refinancing of these loans would be voluntary, however, Rep. Frank stated at a recent hearing on the proposal that he was troubled by evidence that lenders and loan servicers would not be willing to write down the value of the mortgages. Chairman Frank then threatened to introduce more legislation next year that would "go further than they would want".

COSCD A recently submitted a letter to Congress supporting concepts outlined in a draft of this legislation. See the COSCD A website [www.coscda.org](http://www.coscda.org) for the letter. The draft proposal had included \$10 billion for the purchase and rehabilitation of foreclosed homes, however, this provision has been introduced separately in HR 5818, by Rep. Maxine Waters (see article below).

Senator Chris Dodd (D-CT), Chairman of the Senate Banking Committee, plans to introduce a similar bill soon. A mark-up of the House bill is scheduled for April 23 and 24.

### ***House Subcommittee Foreclosure Bill Would Provide \$15 Billion to Resell Foreclosed Homes***

Rep. Maxine Waters (D-CA), Chairwoman of the House Housing and Community Opportunity Subcommittee, introduced legislation on Wednesday that would address the rising number of vacant and abandoned properties due to the increased number of housing foreclosures.

The Neighborhood Stabilization Act of 2008 (HR 5818), would provide \$15 billion in grants and loans to states to purchase and rehabilitate owner-vacated, foreclosed homes with the goal of stabilizing and occupying them as soon as possible, either through resale or rental to low-income families. HUD would provide funds directly to states according to the number of single-family housing foreclosures and principle balances on loans occurring in each state relative to the entire country. States would then distribute these loans and grants to areas with the highest foreclosure levels according to its HUD-approved plan.

However, each state would first be required to allocate funds to any of the 25 most populous cities in the country that are located in the state, according to that city's percentage of foreclosed homes in the state.

Funds could be used for operating costs for holding the foreclosed properties, such as the costs of management, taxes and insurance, and also for state administrative expenses. The bill includes requirements for a portion of the funds to be used for very-low and extremely-low income families, and for the funds to be quickly allocated.

An earlier draft of the bill would have distributed funds through the CDBG and HOME programs. While COSCD A does not have an official position on the distribution of the funds, if they were to be administered through CDBG

and HOME, it could eliminate the need for separate statutory and regulatory language allowing States to more quickly adapt their existing programs to be used for this purpose. In addition, since the Senate bill contains a provision for \$4 billion in CDBG funds to be used for the same purpose, passage through the conference committee might be easier and less complicated if the House bill used the CDBG program also. In the meantime, both the Community Development and Housing Committees will determine which if any provisions they want to support.

### ***Housing Tax Bill Passes Ways and Means Committee***

The House Ways and Means Committee last week passed an \$11.1 billion tax package (HR 5720) that would provide incentives for homeownership and would assist low-income renters. It includes a \$7,500 tax credit for first-time homebuyers who buy a home in the next year. Buyers would have to make less than \$70,000, and would have to pay the credit back to the government over 15 years.

The bill would allow states to issue \$1.4 billion in additional tax-exempt housing bonds and use the proceeds to refinance subprime mortgages, which will help some families stay in their homes.

Also, the bill would temporarily increase the volume cap for the Low-Income Housing Tax Credit, which would allow states to allocate more credits to developers of low-cost housing. An amendment offered by Rep. Kenny Hulshof (R-Mo) would encourage more low-income housing tax credits to be used in poor rural areas.

### ***What's Next?***

Although the President has disapproved of the Senate bill in the past few weeks, he is ready to compromise and sign housing assistance legislation into law since he has been criticized as being too slow to address the foreclosure situation. The final foreclosure bill will most likely include portions of each of these bills, and may pass Congress in the next two months. COSCDA will continue to provide an update on these foreclosure packages. If you have any comments or questions on the bills, or recommendations on additional provisions, contact Linda Thompson, Director of Housing Programs, at [ltompson@coscda.org](mailto:ltompson@coscda.org).

## **Farm Bill Proposal Excludes Rural Development Funding**

House and Senate conferees are involved in final negotiations this week on the Farm Bill, which will reauthorize Department of Agriculture programs, including rural development, for the next five years. Although both chambers previously passed bills providing additional resources for new and

existing rural development programs, including expanded access to broadband communications in rural areas, it now seems unlikely that the final bill will include such funding.

The bill passed by the House in July, 2007 authorized an increase of \$150 million in rural development spending, while the Senate bill, approved in December, provided \$400 million in additional funding. Representatives of the House and Senate Agriculture committees have been engaged in protracted negotiations on the massive, \$ 300 billion measure since January, attempting to come to an agreement. As that process nears its conclusion, it appears that neither side will ensure that additional funding is provided for rural development programs. The most frequent reasons given for the lack of adequate support are that the bill does not include a significant overhaul of commodity payment programs, which may have yielded some additional resources, and that as the economy continues to falter, there is an increased need for nutrition programs, such as food stamps, especially in the wake of significant increases in food prices.

The Conferees are expected to conclude their discussions by next week as both houses recently voted to extend the authorization for programs covered by the bill through April 25.

## **President Bush Announces New HUD Secretary**

President Bush announced Friday that he will nominate Small Business Administration chief Steve Preston to be the new HUD Secretary. Alphonso Jackson announced his resignation in March, and will leave the Department today.

One of Preston's key accomplishments at SBA was the refurbishing of the Disaster Assistance Program, which had problems responding to the Gulf Coast hurricanes in 2005. Before joining SBA, Preston was executive vice president of the ServiceMaster Company, where he was chief financial officer. He also served as a senior vice president and treasurer of First Data Corporation, and as an investment banker at Lehman Brothers.

## **Web-based IDIS System Nearing Completion- Grantees Expected to Use New System by Fall 2008**

HUD provided a demonstration of the new web-based IDIS system for interest groups this week, and unveiled their schedule for final testing of the new system as well as their plans for conversion of data from the old system to the new web-based system and final implementation of the new system.

All four CPD formula grant programs, CDBG, HOME, HOPWA and ESG, will be converted to the new system at the same time. There will be three groups of grantees for implementation purposes – four states with spring program year

start dates will be the first to be converted (Colorado Wisconsin, North Dakota, and South Dakota), which is expected to occur in Fall 2008. Next, about 8-12 weeks later, all states except those utilizing EDI will have their data converted and begin working on the new system, and then finally, another 8-12 weeks later, all states using EDI will be converted to the new system. During the data conversion phase states will be asked to test and review their data and reports to ensure all conversion went smoothly.

The new web-based system has several help sections and tips which should make it easier for new users of the system to self teach themselves basic elements of the system. CPD will issue a notice with more information about the new system and conversion within the next couple of months. In the meantime, User Acceptance Testing (UAT) is continuing from now through August. It is very important for states to participate in UAT of the different modules.